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PENNSYLVANIA BUSINESS SURVEY

College of Business Administration The Pennsylvania State University **December 1986**

GOOD AND BAD NEWS IN ECONOMY

Pennsylvania's economy continues to move forward at a sustainable, but less than exciting, pace. It is becoming more and more apparent that in order to get a handle on the performance of the economy, a wide variety of indicators must be examined. Too often, attention is given solely to one or two measures of activity, usually the unemployment rate or job growth in the service-producing industries, which provide an overly optimistic picture of the State's economic performance. At the same time, some analysts give too much weight to the slumping manufacturing sector. Suffice it to say that the economy's performance probably lies somewhere in between.

Last month's *Survey* pointed out the fact that the Commonwealth's unemployment rate had remained below the nation's for several months. In October, the jobless rate dropped further so that it again remained below the nation's. The decline, from a seasonally adjusted 6.9 percent in September to 6.4 percent, left the Commonwealth's rate 0.6 percentage point below the nation's, but was somewhat misleading. **While the jobless rate was falling, the number of residents counted as employed dipped for the fifth time in seven months to 5.2 million after adjustment for normal seasonal variation.** Over the same period, employment in the nation advanced in six of those months. However, so far this year, Pennsylvania employment has grown 3 percent compared to 2.3 percent in the U.S.

A factor often overlooked in evaluating the employment and unemployment statistics is the behavior of the labor force which is simply the sum of the number of employed and unemployed residents, or the "official" pool of available workers. A reduction in the labor force paved the way for October's decline in the unemployment rate. On a year-to-date basis, the labor force has grown 2.1 percent in the U.S. and 1.9 percent in Pennsylvania. Since the current economic recovery began around 1982/83, the Pennsylvania labor force has grown 2.3 percent compared to the nation's 6.2 percent. **Although employment, for the most part, has been on an upward trend, a portion of the long-run downward trend in unemployment is the result of weak growth in the labor force.** While some of the sluggishness in labor force growth may be a reflection of lower birth rates in Pennsylvania, it may also be the result of a population loss through outmigration as people have left Pennsylvania to reside elsewhere, often in search of brighter economic prospects.

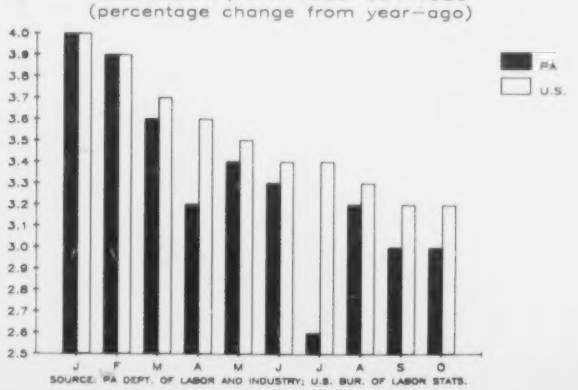
As in the nation as a whole, the service-producing industries are a major source of strength in the economy. Industries in this category include transportation and public utilities, trade, finance (including insurance and real estate), services, and government. Within this group, the bulk of all new jobs are being created in three industry groups. Finance, insurance, and real estate jobs have grown 4 percent this year or by 10,400. Jobs in trade establishments have increased 4.2 percent or by 44,700. Services industries have added 60,400 positions for a 5.2 percent gain.

The November issue of the *Survey* suggested that we should not take the job generation potential of these industries for granted. **The ability of these industries to create a large number of jobs in the face of continuing difficulties in manufacturing is certainly questionable.** Indeed, as the accompanying chart shows, job growth in the service-producing sector does appear to be slowing down from the rapid advances earlier in the year. Without help from manufacturing, it will be very difficult for the economy to grow at anything more than a modest and uneven pace.

Construction and mining go along with these service-producing industries to round out the nonmanufacturing sector. Mining's difficulties are well-publicized. However, **activity in the construction industry remains at a high level.** Job levels were up 6.5 percent during the first ten months of this year compared to a year ago. October's 206,100 construction jobs after seasonal adjustment was the highest since 1979. Construction contract values are also on the rise. They increased 11.7 percent in October to a seasonally adjusted $692 million, led by a gain in the nonbuilding category. For the year as a whole, total awards have grown 22.8 percent, residential by 21.1 percent, nonresidential building by 14 percent, and nonbuilding by 39.4 percent.

The end result from the behavior of all of these industries was another record number of workers in the nonmanufacturing sector during October. At over 3.8

U.S. AND PA SERVICE-PRODUCING INDUSTRIES
JOB GROWTH, JAN 1986-OCT 1986
(percentage change from year-ago)



SOURCE: PA DEPT. OF LABOR AND INDUSTRY; U.S. BUR. OF LABOR STATS.

PA manufacturing job growth by industry, 1986 YTD
(change from 10 mo. ave. for 1985)

	10 Month Average (thous.)	Abs. Chg.	Percent Chg.		10 Month Average (thous.)	Abs. Chg.	Percent Chg.
Durables				Nondurables			
Lumber & wood prods.	25.7	1.8	7.5	Food & kindred	91.7	1.6	1.8
Furniture & fixtures	19.3	-1.1	-5.4	Tobacco mfgs.	1.7	-0.6	-26.1
Stone, clay & glass	47.9	-0.1	-0.2	Textile mill prods.	30.9	-0.1	-0.3
Primary metals	92.9	-12.3	-11.7	Apparel & other textile	92.6	-8.7	-8.6
Fabricated metal	89.1	-2.5	-2.7	Paper & allied	41.3	0.0	0.0
Machinery, exc. elect.	107.4	-7.5	-6.5	Printing & publishing	77.7	2.6	3.5
Electric & elect. eq.	98.2	-6.9	-6.6	Chemicals & allied prods	59.8	-0.1	-0.2
Transportation equip.	60.4	-3.4	-5.3	Petroleum & coal prods.	11.0	-1.9	-14.7
Instruments & related	37.2	-0.4	-1.1	Rubber & misc. plastic	36.0	-0.6	-1.6
				Leather & leather prods.	10.7	-0.7	-6.1

PA Office of Emp. Sec., Dept. of Labor and Industry

million, seasonally adjusted, there were 12,100 more positions than in September. There were 3.4 percent more nonmanufacturing jobs compared to a year ago during the first ten months of this year.

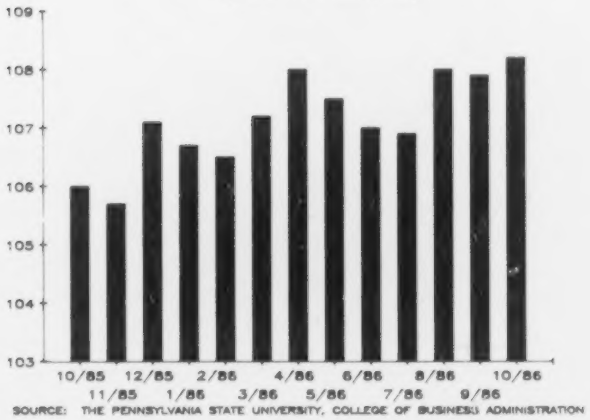
However, **the good news coming from these industries is being partially offset by negative signals coming from manufacturing.** These industries have always been extremely important to the State's economy and will continue to be

Economic Activity in Pennsylvania	UNADJUSTED DATA			SEASONALLY ADJUSTED DATA			SEASONALLY ADJUSTED INDEXES (1977 = 100)		
	1986		1985	1986		1985	1986		1985
	Sept.	*Oct.*	*Oct.*	*Sept.*	*Oct.*	*Oct.*	*Sept.*	*Oct.*	*Oct.*
Pennsylvania Industries									
All nonagricultural industries									
No. of wage and salary jobs (thous.)[1]	4,861*	4,897	4,815	4,829*	4,840	4,764	105.8*	106.0	104.4
Nonmanufacturing									
No. of wage and salary jobs (thous.)	3,808*	3,845	3,732	3,791*	3,803	3,691	117.6*	118.0	114.5
Manufacturing									
No. of wage and salary jobs (thous.)	1,045	1,039	1,076	1,038	1,037	1,074	77.3*	77.2	80.0
Ave. wkly. hrs. worked by prod. workers	40.6*	40.3	40.0	40.5*	40.3	40.0	102.4*	102.1	101.2
Total wkly. person-hours worked (mils.)	28.6*	28.2	29.3	28.3	28.1	29.2	73.8*	73.2	76.0
Total wkly. payroll (mil. dols.)	279.7*	274.3	280.5	277.2*	274.9	280.9	123.4*	122.3	125.0
Steel production (thous. tons)	549	616	961	n.a.	n.a.	n.a.	29.3	31.1	48.5
Industrial electric power sales (mil. kwh)	3,515	3,471	3,567	3,470	3,464	3,542	94.0	93.8	95.9
Mining									
Anthracite coal (thous. net tons)	328	431	371	317	372	319	64.8	76.1	65.3
Bituminous coal (thous. net tons)	5,053	n.a.	4,944†	4,687	n.a.	4,681†	66.5	n.a.	66.4†
Construction contracts awarded (mil. dols.)									
Total	655.6	736.5	659.8*	619.4	692.0	622.1*	192.5	215.1	193.4*
Residential building	308.0	334.4	297.8*	296.2	283.1	257.9*	210.5	201.2	183.3*
Nonresidential building	225.5	245.7	258.1*	195.3	186.0	201.1*	180.0	171.4	185.3*
Nonbuilding (utilities and public works)	122.1	156.4	103.9*	127.9	222.9	163.1*	176.5	307.5	225.0*
Employment of Pennsylvania Residents									
Employed, no. of persons (thous.)	5,278	5,289	5,203	5,234	5,196	5,110	108.9	108.1	106.3
Unemployed									
No. of persons (thous.)	362	322	397	394	357	432	98.3	89.1	107.7
Rate (percentage of labor force)	6.4	5.7	7.1						
Rate, seasonally adjusted				6.9	6.4	7.8			
Civilian labor force, no. of persons (thous.)	5,640	5,611	5,600	5,628	5,554	5,542	108.1	106.7	106.4
Initial claims for unemployment benefits	90,001	94,980	119,603	106,642	97,040	120,544	74.5	67.8	8.2

Consumer Prices, all items	Urban Indexes (1967 = 100) 1986 *Sept.*	*Oct.*	1985 *Oct.*	Percentage Change *Month Ago*	*Year Ago*
U.S. city average	330.2	330.5	325.5	+0.1	+1.5
Philadelphia	325.8	324.7	317.4	-0.3	+2.3
Pittsburgh	n.a.	331.8	328.4	n.a.	+1.0
Northeast PA	311.3	n.a.	306.8†	n.a.	+1.5

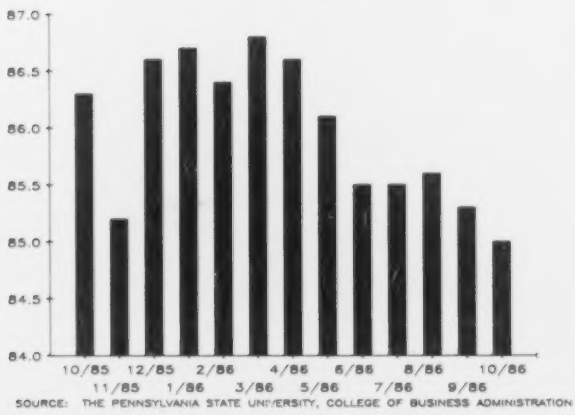
NOTES: Data on employment, payrolls and hours have been revised to first quarter 1985 benchmarks.
[1] Total includes workers on strike. * = figure revised † = figure for September 1985 n.a. = data not available
SOURCES AND DEFINITIONS OF DATA ARE AVAILABLE ON REQUEST.

PENNSYLVANIA COMPOSITE INDEX
OF LEADING INDICATORS
(Jan 1972=100)



SOURCE: THE PENNSYLVANIA STATE UNIVERSITY, COLLEGE OF BUSINESS ADMINISTRATION

PENNSYLVANIA COMPOSITE INDEX
OF COINCIDENT INDICATORS
(Jan 1972=100)



SOURCE: THE PENNSYLVANIA STATE UNIVERSITY, COLLEGE OF BUSINESS ADMINISTRATION

so in the future. We cannot ignore the problems existing in the sector as they affect hundreds of thousands of individuals. Additionally, because those industries experiencing the most difficulties are concentrated in certain regions, especially in western Pennsylvania, this leaves these areas at a severe disadvantage.

As shown in the accompanying table, although most manufacturing industries are losing jobs, the losses are not distributed evenly. **Declines are heavily concentrated in the durable goods industries, especially in the largest industries: primary metals, machinery, and electronic equipment.**

Not surprisingly, manufacturing job levels dipped to another record-low in October in falling by 1,400 to a seasonally adjusted 1.04 million. This was the 13*th* time in the last 15 months in which sectoral jobs stood at an all-time low. Unfortunately, other indicators of manufacturing's strength, such as the average workweek, total hours worked, payrolls, and electricity sales to industry, fail to signal any turnaround. Furthermore, **the loss of the investment tax credit under the tax reform package could put a damper on the purchase of capital goods.**

The end result of October economic activity was a second consecutive 0.4 percentage point drop in the index of coincident indicators, which is designed to mirror movements in the overall economy. The leading index rose for the second time in three months. Recent behavior in this index suggests that **economic activity in the near future should be quite similar to what we've experienced so far this year.**

— William D. Anderson

Retail Sales Report

Pennsylvania retailers turned in another strong performance during the third quarter. Retail sales in the Commonwealth totaled $17.6 billion during the July-September period for an 8.7 percent gain from 1985:IIIQ. During the first nine months of this year, sales were up 7.8 percent from a year ago. Surprisingly, the Commonwealth continues to outperform the nation on the retail trade front. Nationally, sales grew 5.5 percent in the third quarter from a year ago. The year-to-date gain was 4.9 percent.

Because a lack of data at the state-level prevents any detailed analysis of the role that they play, one can only assume that trends and developments in the national economy are similar to those in Pennsylvania and that their impact on retail sales will also be similar. Keeping this qualification in mind, some of the national trends which have the potential to have an impact on Pennsylvania retail sales are:

—Heavy debt burdens: Consumers are heavily in debt. Many economists expect consumers to tighten their purse strings eventually.

—Tax reform: The loss of the sales tax and finance charges deductions when the plan is fully phased-in may give current sales a boost as consumers take advantage of these deductions for a final time.

—Auto incentives: Attractive financing packages boosted third quarter sales. The lack of such incentives could dampen sales in the fourth quarter.

Pennsylvania retail sales
(millions of dollars)

	Retail sales	Pct. change from yr. ago
1986:IIIQ	17,641	8.7
1986:IIQ	17,174	5.1
1986 YTD	49,755	7.8

Sept. 1986 data is preliminary.
Source: U.S. Dept. of Commerce, Bureau of the Census

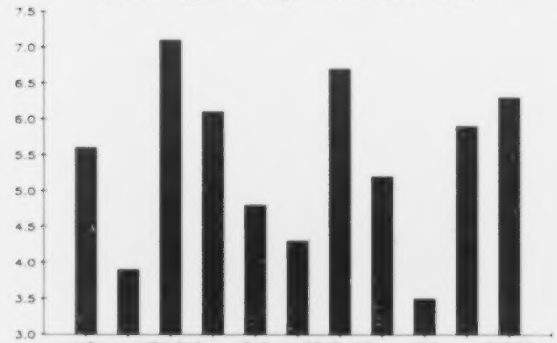
Personal Income Report

In terms of the growth in personal income, it appears that economic activity in the Commonwealth is failing to keep up with that in the nation. Personal income, the income received by individuals from all sources, totaled a seasonally adjusted $164.6 billion on an annual basis in this year's second quarter. This represents a gain of 0.7 percent from the first quarter and 3.6 percent from 1985:IIQ. Pennsylvania's quarterly advance was one-half the nation's 1.4 percent increase while the second quarter-to-second quarter gain was two percentage points less than the nation's 5.6 percent.

Manufacturing's well-publicized difficulties are apparent in the data. Through the first six months of this year, earnings accruing from these industries were down 2.1 percent on the durable goods side from the same period last year while there was a slight gain of 2.4 percent in the nondurable goods category. In the service-producing sector, however, earnings growth totaled 7 percent on a year-to-date basis. This same discrepency between the performances of the manufacturing and service-producing sectors is also evident in the nation.

The accompanying chart provides evidence of Pennsylvania's difficulties relative to the nation. So far this year, personal income in Pennsylvania is up 3.9 percent compared to the first six months of 1985, considerably less than the 5.6 percent gain in the U.S. Additionally, of the nine census regions (New England, Middle Atlantic, East North Central, West North Central, South Atlantic, East South Central, West South Central, Mountain, and Pacific), only one, the West South Central Region, has realized a lower rate of personal income growth so far this year than the Commonwealth.

REGIONAL PERSONAL INCOME GROWTH RATES, 1986 YTD
(percentage change from year-ago)



SOURCE: U.S. DEPT. OF COMMERCE, BUR. OF ECON. ANALYSIS

Pennsylvania personal income
(seas. adj. ann. rates; millions of dollars)

	Personal income	Pct. change Qt. ago	Pct. change Yr. ago
1986:IIQ	164,562	0.7	3.6
1986:IQ	163,434	1.1	4.2
1985:IIQ	158,854	1.3	5.8

Source: U.S. Dept.of Commerce,
Bur. of Econ. Analysis

PENNSYLVANIA BUSINESS SURVEY

December 1986 Vol. 27, No. 12

Published monthly by the Division of Research of the College of Business Administration, 103 Business Administration Bldg. II, The Pennsylvania State University, University Park, PA 16802. Subscription rate: $7.00 a year. (ISSN 0031-4382)

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PENNSYLVANIA BUSINESS SURVEY
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University Park, PA 16802

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U.Ed. 87-530

* 018-01-03332
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